

Message Text

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EXDIS HOLD FOR OPENING OF BUSINESS

E.O. 11652: XGDS-2

TAGS: EMIN, EFIN, EINV

SUBJECT: SMTF PARTNERS PLAN TO MOTHBALL PROJECT AND
TRAVEL TO KINSHASA JANUARY 19 TO INFORM GOZ

REF: AMB. CUTLER-STRAND TELECON, JANUARY 14

SUMMARY: WORLD BANK OFFER ON SMTF COPPER PROJECT COST
OVERRUN FINANCING DOES NOT MEET PARTNERS' DESIRE TO LTMFT
THEIR OWN ADDITIONAL EXPOSURE. PARTNERS HAD LOOKED TO
WORLD BANK AS LENDER OF LAST RESORT, AND WITHOUT PROSPECT
OF WORLD BANK ASSISTANCE ON ACCEPTABLE TERMS THEY ARE NOW
UNWILLING TO CONTINUE TO INVEST THEIR OWN MONEY IN PROJECT.

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DEPARTMENT HAD ASKED EXIM AND OPIC TO CONSIDER POSSIBILITY

ASSUMING RISK FOR SOME INTERIM FINANCING PENDING WORKING OUT OF LONG-TERM PACKAGE WITH WORLD BANK. HOWEVER, WITH FAILURE OF WORLD BANK AND SHAREHOLDERS TO FIND COMMON GROUND, QUESTION OF INTERIM FINANCING HAS BECOME ACADEMIC. HAVING EARLIER AGREED TO SECRETARY'S REQUEST TO DELAY INFORMING MOBUTU UNTIL JANUARY 19, PARTNERS HAVE NOW DECIDED TO PROCEED WITH NOTIFICATION AS SCHEDULED. ALL, EXCEPT PERHAPS THE FRENCH, WILL MEET IN JOHANNESBURG OVER WEEKEND AND PROCEED TO KINSHASA SUNDAY NIGHT. FRENCH INTENTIONS NOT ENTIRELY CLEAR. TEXT OF PROPOSED SHAREHOLDERS' LETTER TO MOBUTU EXPLAINING DECISION TO "TEMPOR-

ARILY SUSPEND PROGRESS IS BEING SENT SEPTTEL, ALONG WITH AMENDMENTS PROPOSED BY DEPARTMENT. POSSIBLE TALKING POINTS FOR SEPARATE DEMARCHE BY EMBASSY ALSO FOLLOW SEPTTEL. END SUMMARY.

2. INTENTION OF SMTF PARTNERS TO STOP WORK ON COPPER PROJECT AND TO GO TO KINSHASA JANUARY 19 TO CONVEY AND EXPLAIN DECISION TO GOZ, REPORTED REF TELECON, HAS NOW BEEN CONFIRMED.

3. AS EMBASSY AWARE, STANDARD BOARD DECISION TO MOTHBALL WAS TAKEN DECEMBER 18, AND STANDARD ORIGINALLY PLANNED MISSION TO KINSHASA TO INFORM MOBUTU BETWEEN CHRISTMAS AND NEW YEAR. COORDINATION WITH OTHER PARTNERS NECESSITATED SOME DELAY, AND THEN STANDARD CHAIRMAN SWEARINGEN, AT BEHEST OF SECRETARY KISSINGER, AGREED TO POSTPONE KINSHASA TRIP AND IMPLEMENTATION OF MOTHBALLING DECISION UNTIL JANUARY 19, A WEEK AFTER OAU SUMMIT.

4. THIS ALSO HAD EFFECT OF PUTTING OFF DAY OF RECKONING UNTIL AFTER REPLY OF WORLD BANK TO SMTF'S REQUEST FOR BANK HELP IN FUNDING LARGE PROJECT COST OVERRUNS. BOTH DEPARTMENT AND OTHER SMTF PARTNERS FELT IT WOULD BE PREMATURE, AND WOULD MAKE IT MORE DIFFICULT TO JUSTIFY SUSPENSION OF WORK TO MOBUTO, IF PARTNERS WERE TO GO AHEAD WITH MOTHBALLING WITHOUT KNOWING WHAT WORLD BANK WAS PREPARED TO DO AND WHETHER THIS WOULD PROVIDE BASIS FOR CONTINUING WORK.

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5. MEMORANDUM CONTAINING IFC/IBRD REPLY WAS DELIVERED TO SMTF PARTNERS JANUARY 13 AND DISCUSSED WITH THEM SAME DAY. BANK STAFF HAD GIVEN MATTER URGENT, THOROUGH AND HIGH-LEVEL ATTENTION. (AS EMBASSY AWARE, BOTH SECRETARY AND DEPUTY SECRETARY HAD EARLIER TOLD MCNAMARA USG ATTACHED GREAT IMPORTANCE TO PROJECT AND HOPED BANK WOULD GIVE IT SERIOUS CONSIDERATION.) IN ITS MEMORANDUM

TO SHAREHOLDERS, BANK OFFERED SUBSTANTIAL FINANCING (DOLS 15 MILLION IFC EQUITY, DOLS 85 MILLION IBRD LOAN) AND HELP WITH RECRUITING MORE BUT ON TERMS WHICH DID NOT MEET THE PARTNERS' DESIRE TO LIMIT THEIR OWN ADDITIONAL EXPOSURE ON THE PROJECT. BANK OFFER WOULD HAVE REQUIRED PARTNERS TO MEET DOLS 100 MILLION OF THE ESTIMATED DOLS 250 MILLION COST OVERRUN (ESTIMATED TOTAL PROJECT COST WAS DOLS 960 MILLION) BY INCREASING THEIR OWN EQUITY IN THE PROJECT AND TO CONTINUE TO PROVIDE, OUT OF EQUITY, THE ADDITIONAL FUNDS NECESSARY TO MAINTAIN PROJECT IMPLEMENTATION DURING ESTIMATED SIX MONTHS IT WOULD TAKE TO WORK OUT FINANCING ARRANGEMENTS. EVEN IF

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OTHER SOURCES FOR SOME OF THE INTERIM FUNDING COULD HAVE BEEN FOUND, BANK'S TERMS FOR ITS OWN LOAN WERE UNACCEPTABLE. BANK'S OFFER REQUIRED THAT PARTNERS "UNDERTAKE TO SECURE THE BANK LOAN AGAINST ALL RISKS OTHER THAN EVENTS UNDER A FORCE MAJEURE CLAUSE DEFINED TO COVER LIMITED POLITICAL RISKS, I.E. FORCE MAJEURE WOULD ONLY COVER ACTS OR FAILURE TO ACT BY THE GOVERNMENT...." THIS WOULD INCLUDE NATIONALIZATION, FOR EXAMPLE, BUT WOULD EXCLUDE SUCH NORMAL FORCE MAJEURE EVENTS AS "STRIKES, WARS, CIVIL DISORDERS, FLOODS, EARTHQUAKES, INTERRUPTION OF TRANSPORT...ETC." ALL THESE WOULD BE AT RISK OF SHAREHOLDERS AND THEIR PARENT COMPANIES.

6. IN DISCUSSIONS BETWEEN BANK STAFF AND PARTNERS JANUARY 13 AND BETWEEN MCNAMARA AND SORESEN (TEMPELSMAN'S COUNSEL) JANUARY 14, IT BECAME CLEAR THAT THERE WAS NO MEETING GROUND. BASIC IRRECONCILABLE DIFFERENCE WAS OVER HOW RISK WOULD BE COVERED: PARTNERS WERE
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WILLING TO PROVIDE PROJECT GUARANTEES (E.G. ESCROWING ABROAD OF COPPER REVENUES TO SERVICE BANK'S LOAN) BUT NOT TO GUARANTEE LOAN THEMSELVES; IN VIEW OF UNCERTAINTIES ABOUT BOTH PROJECT AND ZAIRE, INCLUDING POSSIBILITY THAT PROJECT MIGHT NEVER BE COMPLETED AND PRODUCE REVENUES, BANK DEMANDED SHAREHOLDER GUARANTEE. PARTNERS HAD LOOKED TO WORLD BANK AS LENDER OF LAST RESORT, AND WITHOUT PROSPECT OF WORLD BANK ASSISTANCE ON ACCEPTABLE TERMS ARE UNWILLING TO CONTINUE TO INVEST THEIR OWN MONEY IN PROJECT. (COPIES OF IFC/IBRD OFFER AND SMTF COUNTERPROPOSAL POUCHED TO KINSHASA JANUARY 15.)

7. IN ANTICIPATION OF POSSIBLE AGREEMENT BETWEEN WORLD BANK AND PARTNERS ON FINANCING OF COST OVERRUN, DEPUTY SECRETARY HAD ASKED EXIM CHAIRMAN DUBRUL AND OPIC

PRESIDENT MAYS TO GIVE URGENT CONSIDERATION TO POSSIBILITY OF TAKING A RISK ON SOME OF THE INTERIM FINANCING WHICH WOULD BE REQUIRED TO KEEP PROJECT WORK GOING WHILE OVERALL FINANCING PACKAGE WAS BEING ENLARGED AND RESTRUCTURED WITH HELP OF WORLD BANK. (THIS WOULD HAVE BEEN AN EXTRAORDINARY OPERATION FOR EITHER OF THEIR INSTITUTIONS.) BOTH DUBRUL AND MAYS DID MEET WITH SWEARINGEN JANUARY 15, BUT WITH FAILURE OF SHAREHOLDERS AND WORLD BANK TO FIND COMMON GROUND, QUESTION OF INTERIM FINANCING HAD BY THEN BECOME ACADEMIC.

8. SHAREHOLDERS ARE MEETING IN JOHANNESBURG THIS WEEKEND PRIOR TO DEPARTURE FOR KINSHASA SUNDAY EVENING, JAN. 18. THEY DO NOT YET HAVE AN APPOINTMENT WITH MOBUTU. THEY HAVE PREPARED LETTER EXPLAINING THEIR DECISION TO

TEMPORARILY SUSPEND PROGRESS ON THE PROJECT" PENDING RESOLUTION OF FINANCIAL PROBLEMS AND OUTLINING PLANS FOR TREATMENT OF LABOR FORCE, MAINTENANCE OF PROPERTIES, ETC. TEXT OF LETTER AND CHANGES IN IT WHICH DEPARTMENT HAS PROPOSED, AND PARTNERS ARE CONSIDERING, ARE BEING SENT SEPTTEL.

9. STANDARD WILL BE REPRESENTED BY PRESIDENT GEORGE V. MYERS AND AMOCO SUBSIDIARY EXEC VICE PRESIDENT RAY BALLMER. TEMPELSMAN WILL, OF COURSE, BE PRESENT, AS
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WILL REPRESENTATIVE OF MITSUI. FRENCH PARTNER, THE GOVERNMENT-OWNED BRGM, HAS NOT YET INDICATED WHETHER IT WILL TAKE PART IN PRESENTATION TO GOZ. FRENCH HAVE SOUGHT TO AVOID MOTHBALLING, AND IN SIGNING CABLE TO MCNAMARA REJECTING WORLD BANK'S OFFER, BRGM REPRESENTATIVE, WITHOUT TIME TO CONSULT PARIS, SIGNED ONLY IN HIS OWN NAME. FRENCH AMBASSADOR TOLD SECRETARY JANUARY 12 THAT FRENCH WOULD LIKE TO SUPPORT PROJECT FOR FOREIGN POLICY REASONS. THERE HAS BEEN NO INDICATION, HOWEVER, THAT GOF WOULD BE WILLING TO MAKE THE MULTI-HUNDRED-MILLION-DOLLAR INFUSION OF RISK CAPITAL WHICH WOULD NOW BE REQUIRED TO PREVENT MOTHBALLING.

10. PARTNERS' LETTER INDICATES CONTINUING ATTEMPTS WILL BE MADE WITH WORLD BANK AND OTHERS TO FIND FINANCING NEEDED TO COMPLETE PROJECT. TEMPELSMAN HOPES TO ENGAGE MOBUTU IN EFFORT TO FIND NEW EQUITY AND DEBT, PERHAPS FROM IRAN OR KUWAIT. IDEA, WE JUDGE, WILL BE TO MAINTAIN AT LEAST ILLUSION OF ACTION AND AURA OF HOPE PENDING DEVELOPMENTS WHICH WOULD MAKE PROJECT ATTRACTIVE AGAIN TO INVESTORS AND LENDERS ALIKE: IMPLEMENTATION OF IMF AGREEMENT WITH ZAIRE; CESSATION OF WAR IN ANGOLA AND RE-

OPENING OF BENGUELA RAILWAY; SOME FAVORABLE MOVEMENT
IN COPPER FUTURES. PARTNERS DO HAVE DOLS 250-270 MILLION
SUNK (INCLUDING COSTS OF MOTHBALLING) WHICH THEY WOULD
LIKE TO RECOVER. ACCORDING TO HOEN, CHASE-SYNDICATE
BANKS STILL WILLING LOOK AT FINANCIALLY RESTRUCTURED
PROJECT IF COST OVERRUN FINANCING CAN BE FOUND ELSEWHERE.
WE UNDERSTAND THAT MOTHBALLING PROCESS WILL TAKE THREE
MONTHS AND DURING FIRST 30 DAYS COULD BE REVERSED
WITHOUT SUBSTANTIAL LOSS OF MOMENTUM.

11. LARGE QUESTION MARK, OF COURSE, WILL BE MOBUTU'S
REACTION TO NEWS OF MOTHBALLING. BOTH STANDARD (BALLARD)
AND TEMPELSMAN HAVE ASSURED DEPARTMENT THEY WILL
CONSULT WITH EMBASSY BEFORE MAKING PITCH TO GOZ. WE WILL
BE PROVIDING SEPTTEL SUGGESTED POINTS FOR SEPARATE
DEMARCHE YOU MAY WISH TO MAKE TO HELP SOFTEN THE BLOW. KISSINGER

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